Quest Journals
Journal of Research in Business and Management
Volume 11 ~ Issue 5 (2023) pp: 01-11
ISSN(Online):2347-3002
www.questjournals.org

Research Paper

Detailed Report on PPFAS AMC

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***R**eceived 25 Apr., 2023; **R**evised 03 May, 2023; **A**ccepted 05 May, 2023 © The author(s) 2023.*
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I. INTRODUCTION

PPFAS (Parag Parikh Financial Advisory Services Limited) Asset Management Pvt. Ltd. is a renowned Indian asset management company offering mutual fund schemes to **Indian and foreign investors**. PPFAS AMC is the registered asset manager of PPFAS Mutual Fund. The mutual fund house was **founded in 2012**, and the **first scheme was launched in May 2013**. Its SEBI registration number is **MF/069/12**.

PPFAS Mutual Fund currently provides one equity scheme (Parag Parikh Flexi Cap Fund), one ELSS scheme (Parag Parikh Tax Saver Fund), one hybrid fund (Parag Parikh Conservative Hybrid Fund), and one liquid fund (Parag Parikh Liquid Fund). Investors can invest in **PPFAS mutual funds** both **online** and offline (through empanelled distributors) **in India**.

Parag Parikh Financial Advisory Services Limited originated as Parag Parikh Securities Ltd. in 1983. It was registered with the Bombay Stock Exchange as an equity brokerage house. In 1994, the name of the company was changed to Parag Parikh Financial Advisory Services Limited (PPFAS). **The company was the first in India to launch a Portfolio Management Service** or PMS named Cognito in 1996. PPFAS Limited has a rich and diverse experience of over two years in portfolio management in **equity, fixed income, and mutual funds.** The **company's clientele includes mutual fund houses, financial institutions, banks, foreign institutional investors, corporate houses, and individual investors**.

PPFAS mutual fund has a unique perspective of the market. **Unlike other mutual fund houses, they provide only one scheme each in equity, ELSS, liquid, and hybrid**. They believe that if full attention is given to one fund, it will outperform all other funds in the category. The fund house always keeps about **20% of the total Asset Under Management (AUM) as cash and cash equivalent**. This ensures that they can tap into the market when the valuations are attractive.

PPFAS mutual fund has witnessed a steady jump in its investor base. While the total number of investors in **March 2014 was a modest 1,726**, it has now **grown to 655,738 (as of March, 2022)**. Also, its SIP book size has grown to INR 158.23 in March 2014, compared to INR 0.05 crore in March 2014. The fund house's operating income has increased to INR 3,313.04 lakhs in March 2021, as against INR 1,876.12 lakhs in March 2022. Moreover, the company's Profit After Tax or **PAT has expanded to INR 919.18 lakhs in the financial year 2021-22, compared to INR 369.12 lakhs in 2020-21**.

INVESTMENT PHILOSPHY

There are certain set of principles which governs the investment philosophy of any of the financial advisory firm/mutual fund house. Underneath mentioned are some of the philosophies which governs the PPFAS:

- **Invest in shares:**

Investing in a set of **high-quality companies**, bought at reasonable valuations is usually profitable over the long term. While past performance may not always repeat, it is a fact that such stocks have outperformed other investment avenues like bank deposits, gold, commodities, etc. **over holding periods of five to seven years**.

- **Invest for the long-term:**

Maximum profits are made in the stock markets by investing for the long-termi.e., by not shifting in and out of stocks on a regular basis, but **by investing in a good company and remaining there.**Money compounds only over time. **The power of compounding means that the longer you invest, the higher are your returns.**

- **Tax Benefits:**

An added **advantage of holding stocks for longer period**is that unlike interest earned from fixed interest instruments which is liable to tax year after year, **the profit from investing in shares (under current Income Tax Regulations) is liable to be taxed at a discounted rate of 10% if sold within a period of one year from the date of purchase and not liable to tax at all if sold beyond a period of one year. In addition, the dividends earned, also do not attract income tax.**

- **Focus on the company take advantage of the stock market:**

No one in the market is successful in timing the market well for an extended period of time,The market will rise and the market will fall - it will behave pretty much as it wants to behave. Thus, **the fund tries to take advantage of it by focussing on the long-term intrinsic value of a company**. In a falling market, as **the stock price falls, companies with attractive long-term fundamentals get cheaper and cheaper Fund keeps cash handy and jump in the midst of pessimism**. Fund attempt to be greedy when others are fearful, and fearful when others are greedy. The market exists not to be timed, but to be taken advantage of. In line with our philosophy of investing for the long-term

BOARD OF DIRECTORS

Neil Parag Parikh

Neil has been associated with the firm on a full-time basis since June 2004.His designation was Dealer-Institutional Equities and he liaised with many Mutual Funds and FIIs on a daily basis. He took a break in 2008 for 2 years in order to pursue his MBA from the prestigious IESE Business School in Barcelona, Spain.Neil has re-joined the firm in July 2010, after completing his MBA as **Associate Vice President, Marketing**.

Rajeev Thakkar possesses **over 15 years of experience** in various segments of the Capital Markets such as investment banking, corporate finance, securities broking and managing clients' investments in equities. Rajeev's academic inclination is evident in the plethora of degrees earned by him. He is a Chartered Accountant, Cost Accountant, CFA Charter holder and a CFP Certificated.Rajeev is a strong believer in the school of **value investing** and is heavily influenced by Warren Buffet and Charlie Munger's approach.**Rajeev Thakkar**

A chartered accountant by training, Suneel started his career at a multinational bank.In his mid-40s, Suneel's entrepreneurial bug bit him again and he founded Hanmer & Partners, a full-service integrated communications firm in 1999. In 2008, Suneel set up India's first art fair, called India Art Summit. In January 2015, in true spirit of being a serial entrepreneur, Suneel co-founded India's first Strategic Consultancy with a focus on communication called Pitchfork.
Mr. Suneel Gautam

PPFAS MUTUAL FUNDS

There are various types of mutual funds available, which are operated by PPFASAMC (Asset Management Company) based on different investing needs of the investor:

1) **PARAG PARIKH TAX SAVER FUND:**

- **Objective: -** The investment objective of the Scheme is to generate long-term capital appreciation through a diversified portfolio of equity and equity related instruments.

- **Fund Managers:** Rajeev Thakkar , Raunak Onkar , Rukun Tarachandani , Raj Mehta
- **Launch date** – 24-Jul-2019

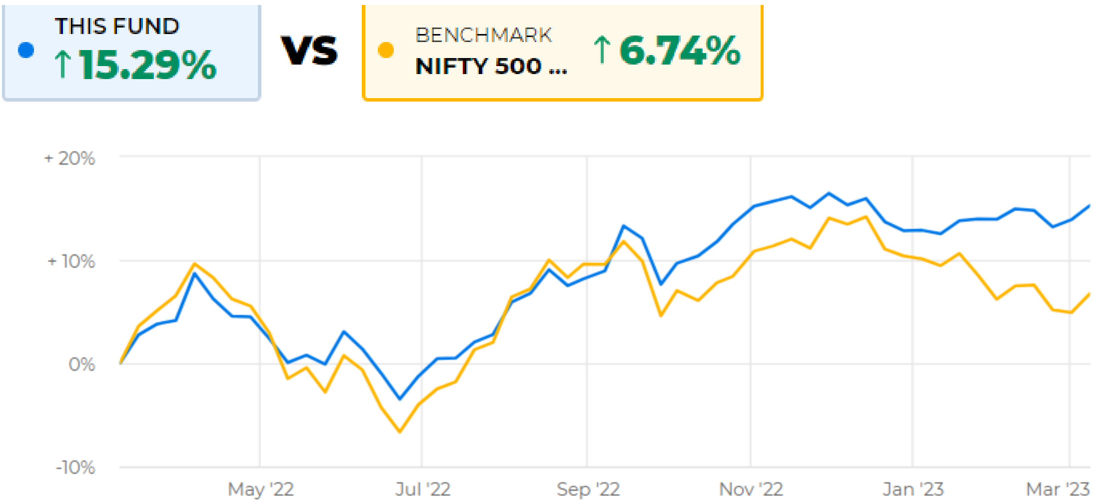
- **Expense Ratio: 0.81%** as declared on 31-Jan-2023 (**category average is 1.01%)**

- **Type:Open Ended Fund**. You can invest any time in this fund.

- **Benchmark:**Nifty 500 TRI

- **RETURNS COMPARISON:**

1 YEAR RETURS COMPARISON:



From the above chart comparison, it's clear that the fund is able to beat the Benchmark index by almost double the returns, thus it's **good fund to invest in With exit load as less as 0%** also has minimum risk as **compared to its peers** Also providing the **tax benefits under section 80(C).**

- **Tax Implications:**

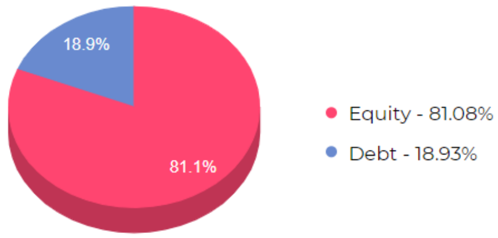
1.) Short-term Capital Gain Tax **(STCG) is not applicable on ELSS schemes since these have a lock-in period of 3 years.**
2.) Investment into ELSS schemes qualify for tax deduction under Section 80C of the Indian Income Tax Act.
3.) Gains of **more than Rs. 1 lakh** after completion of 3 years will be **taxed at a rate of 10%** (Long-term Capital Gain Tax - LTCG).
4.) For **Dividend Distribution Tax**, the dividend income from this fund will get added to the income of an investor and taxed according to his/her respective tax slabs.
5.) Also, for **dividend income in excess of Rs 5,000** in a financial year, the fund house shall deduct a **TDS of 10% on such income**.

- **Asset Allocation & Portfolio Composition:**

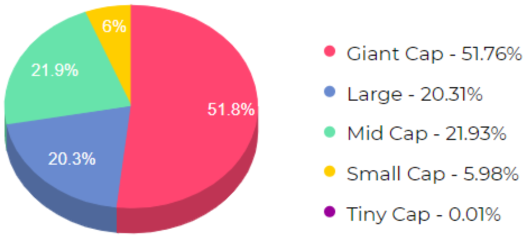
❖ The asset allocation of the fund comprises **around 80.08% in equities**, 0.0% in debts and **18.9% in cash & cash equivalents**.

❖ While the top 10 equity holdings constitute around 60.4% of the assets, the top 3 sectors constitute around 60.27% of the assets.

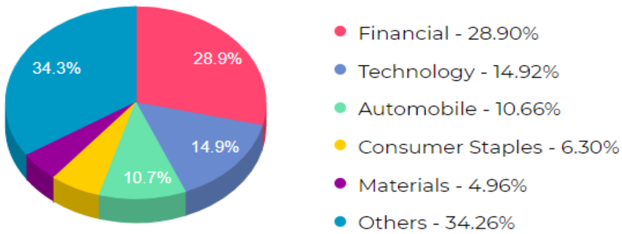
Asset Allocation



Market Cap Allocation



Sector Allocation



- **VIEWS ON SCHEME:**

The Fund offers handsome returns when compared to benchmark index & to peers as well, also as its name suggest it's **providing tax benefits under section 80(C)** , Also, the **low volatility**(16.62 vs category avg. of 20%), also have low beta(0.72vs 0.87), also the fund has **higher Sharpe ratio** of 0.92 vs category avg. of 0.56% .Thus, **fund has been able to give better returns for the amount of risk taken**.
The portfolio is beautifully diversified as seen from the pie chart by including mixture of all sizes of companies (large, md, & small cap), & across different sectors which will help the scheme to provide returns in case **of unsystematic risk**
In any of the particular sector. Thus, maintaining the returns for an investor.

2) PARAG PARIKH FLEXI CAP FUND:

- **Current NAV:** The Current Net Asset Value of the Parag Parikh Flexi Cap Fund - Direct Plan as of Mar 08, 2023 **is Rs 53.18** for Growth option of its Direct plan.

- **Returns: Its trailing returns** over different time periods are: **-6.91% (1yr)**, **24.87% (3yr)**, **17.08% (5yr)** and **18.81% (since launch**). Whereas, Category returns for the same time duration are: -5.37% (1yr), 16.1% (3yr) and 10.33% (5yr).

- **Fund Size:** The Parag Parikh Flexi Cap Fund - Direct Plan currently holds Assets under Management worth **of Rs 26033.24 crore as on Sep 30, 2022**.

- **Expense ratio:** The expense ratio of the fund is **0.78% for Direct plan as on Sep 30, 2022.**

- **Exit Load:** Parag Parikh Flexi Cap Fund - Direct Plan shall attract an Exit Load, "For **units above 10% of the investment, exit load of 2% if redeemed within 365 days and 1% if redeemed after 365 days but on or before 730 days.**"

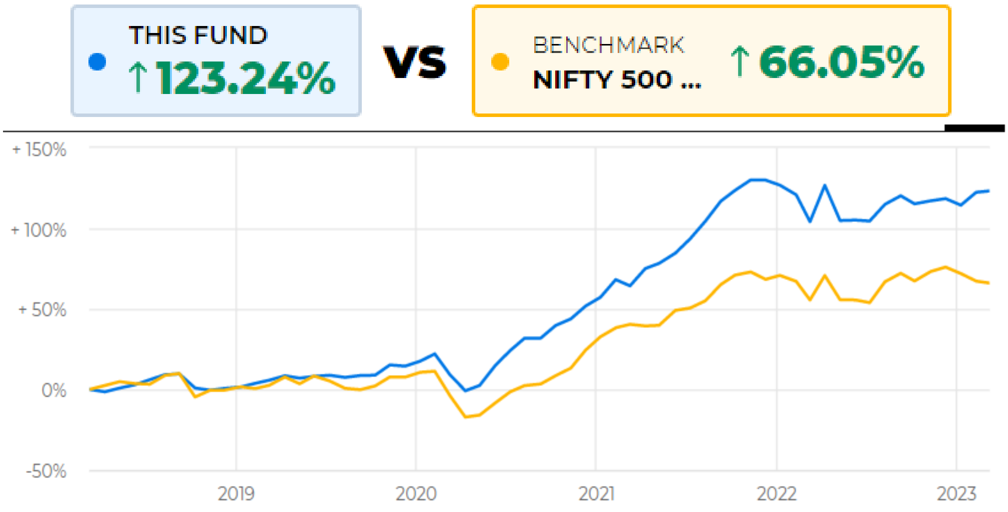
- **Minimum Investment:** Minimum investment required is **Rs 1000**.

- **Launch Date:** The fund was launched on May 28, 2013

- **Fund Category:**Flexi Cap

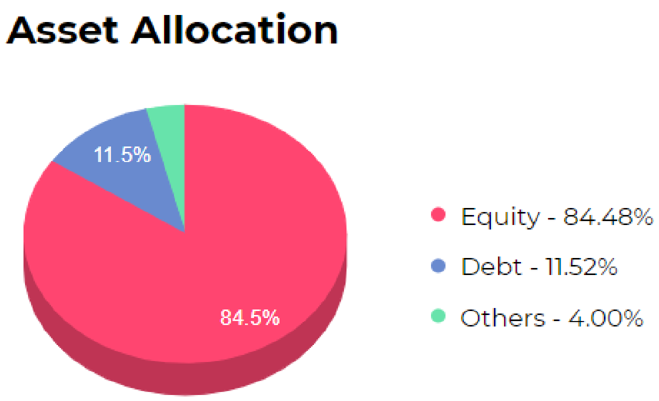
- **RETURNS COMPARISON AGAINST BENCHMARK:**

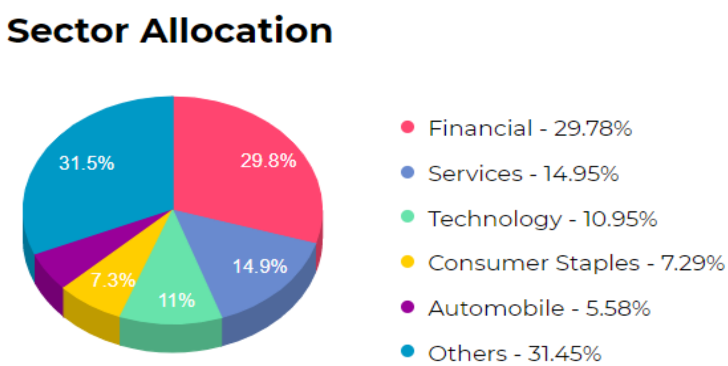
5 YEAR REURNS



As can be seen above, the long term returns of the fund has beaten the benchmark byProviding almost double returns of 122% vs benchmark returns of 66.5% to its investor base, which is very significant for any long term fund.

- **PORTFOLIO ALLOCATION:**





- **PORTFOLIO(%WISE):**

SECTOR	ASSEST (%)
Financial	29.78
Services	14.95
Technology	10.95
Consumer Staples	7.29
Automobile	5.58
Materials	4.95
Healthcare	4.90
Energy	4.70
Metals & Mining	1.38

- **TAX IMPLICATIONS**:

I. Gains are taxed at a rate of 15% (Short-term Capital Gain Tax - STCG) if units are redeemed within 1 year of investment.
II. For units redeemed after 1 year of investment, gains of upto Rs. 1 lakh accruing from those units in a financial year shall be exempted from tax.
III. Gains of more than Rs. 1 lakh will be taxed at a rate of 10% (Long-term Capital Gain Tax - LTCG)
IV. or Dividend Distribution Tax, the dividend income from this fund will get added to the income of an investor and taxed according to his/her respective tax slabs.
V. Also, for dividend income in excess of Rs 5,000 in a financial year; the fund house shall deduct a TDS of 10% on such income.

- **Views on the Fund:**

Parag Parikh Flexi Cap Fund Direct-Growth which belongs to Equity-Flexi cap of funds As the scheme is flexi cap fund thus its investing in variety of equity funds, also having investments across various classes & highly diversified portfolio also involving high quality overseas assets thus high risk is involved since assets from different countries are also involved the impact of their economy also affects the scheme in an adverse or positive way depending upon the macroeconomic conditions although the percentage of such investments are not much higher it provides good initiative to those investors who are unable to invest in foreign stocks as well. The scheme has outperformed the index returns, also it has lower beta and higher alpha thus providing high returns with given level of risk.so, with good management the scheme is doing well & it **would be advisable to invest in the scheme for long-term perspective (>3 yr.)**The suggested investment horizon is the minimum time required for **holding investments in the fund to reduce its downside risk and ensure that the returns become more predictable.**

3) PARAG PARIKH LIQUID FUND:

- **Current NAV:**The Current Net Asset Value of the Parag Parikh Liquid Fund - Direct Plan as of **Mar 08, 2023 is Rs 1,249.76**.

- **Returns:**Its trailing returns over different time periods are: 3.99% (1yr), 3.76% (3yr) and 4.59% (since launch). Whereas, Category returns for the same time duration are: 4.05% (1yr), 3.86% (3yr) and 5.13% (5yr).

- **Fund Size:** The Parag Parikh Liquid Fund currently holds Assets under Management worth of **Rs 1520.01 crore** as on Sep 30, 2022.

- **Expense ratio:** The expense ratio of the fund **is 0.16%** (as on Sep 30, 2022).

- **Exit Load:** Parag Parikh Liquid Fund shall attract an Exit Load, "**Exit load of 0.0070%** if redeemed within 1 day, 0.0065% if redeemed within 2 days, 0.0060% if redeemed within 3 days, 0.0055% if redeemed within 4 days, 0.0050% if redeemed within 5 days, 0.0045% if redeemed within 6 days."

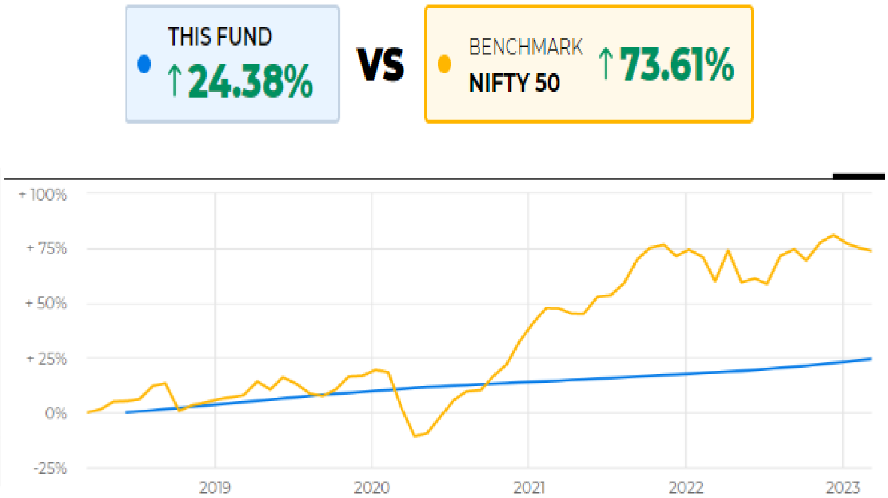
- **Minimum Investment:** Minimum investment required is **Rs 5000** and minimum additional investment is Rs 1000. Minimum **SIP investment is Rs 1000**.

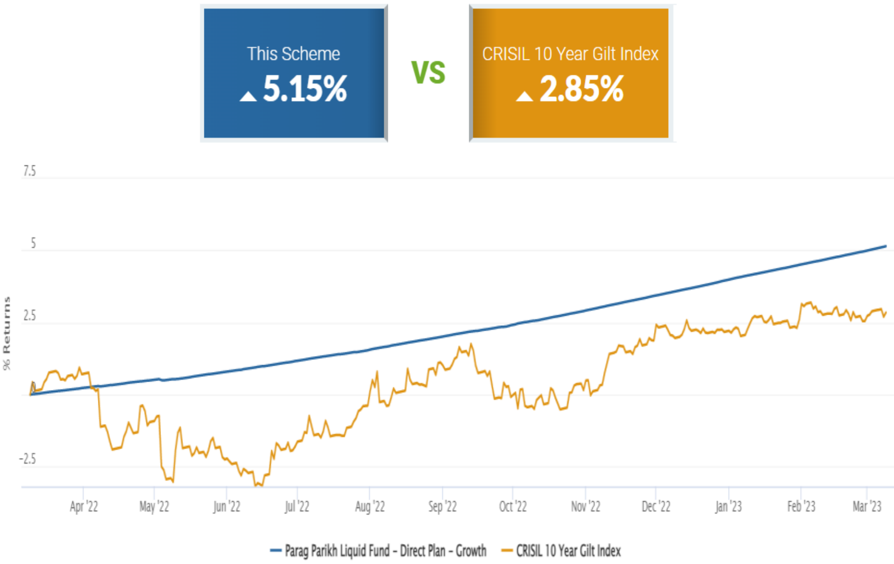
- **Launch Date:** The fund was launched on May 11, 2018.

- **Fund Category:**Open-ended Liquid Debt scheme

- **RETURNS COMPARISON AGAINST BENCHMARK:**

5 YEAR REURNS





As can be seen from above charts the benchmark index (NIFTY500) have outperformed the fund,but since it's a liquid fund so the better comparison can be done across Gilt securities. Thus, the scheme has given good returns (5.15%) although can't be said very good but it's close to its **category average of 5.14%.** so it can recommended to only those whoprefers liquidity & don't want much risk appetite (in turn offers less return).

- **PORTFOLIO ALLOCATION:**

Type of Holdings

Security Type	% Weight	Category Average
BRDS	0.00%	0.17%
GOI	11.69%	0.89%
CD	5.97%	30.32%
T-Bills	74.54%	17.42%
NCD & Bonds	0.00%	8.10%
CP	3.31%	38.60%

Investment / Portfolio Grades

Security Type	% Weight	Category Average
Government Backed	86.23%	18.31%
Low Risk	9.28%	77.02%
Moderate Risk	0.00%	0.00%
High Risk	0.00%	0.00%
Very High Risk	0.00%	0.00%
Others	0.00%	0.00%

No. of Debt Holding are (20 vs Category avg. of 53.92), for duration of about (0.12 years vs Category avg. of 0.9 years), although yield to maturity of the fund is on lower side marginally when compared to category fund(6.43% vs category avg. of 6.83%).

- **TAX IMPLICATIONS**:

I. If units are redeemed **within 3 years of investment**, the whole amount of gain will get added to the investor's income and will be taxed as per his/her applicable slab rate.

II. For units redeemed after 3 years of investment, gains will **be taxed at a rate of 20% post indexation benefits** (Indexation is a process of recalculating the purchase price after accounting for inflation into it. The benefit of indexation lies in lowering down one's capital gains which brings down the taxable income and thereby reduces taxes on it).

III. For Dividend Distribution Tax, the dividend income from this fund will get added to the income of an investor and taxed according to his/her respective tax slabs.

IV. Also, **for dividend income in excess of Rs 5,000 in a financial year; the fund house shall deduct a TDS of 10% on such income**.

- **Views on the Fund:**

The Fund has inception since 2018, thus has just operated for period of 5 years as of now. Thus, not enough data present to analyse the performance but if we consider these 5 years only, the fund is not able to generate good returns as of Category wise & Benchmark index as can be seen from above charts, I wouldn’t recommend this fund to any of my investor since, the fund is new & other funds in category (Quant Liquid Fund, Edelweiss Liquid Fund, etc)offers good returns & liquidity conditions.

4) PARAG PARIKH CONSERVATIVE HYBRID FUND:

- **Current NAV:** The Current Net Asset Value of the Parag Parikh Conservative Hybrid Fund (as of Mar 08, 2023) is **Rs 11.32** for Growth option of its Direct plan.

- **Returns:** Its trailing returns over different time periods are: 4.19% (1yr) and 6.68% (since launch). Whereas, Category returns for the same time duration are: 1.26% (1yr), 7.23% (3yr) and 5.78% (5yr).

- **Fund Size:** The Parag Parikh Conservative Hybrid Fund - Direct Plan currently holds Assets under Management worth **of Rs 1030.42 crore as on Sep 30, 2022.**

- **Expense ratio:** The expense ratio of the fund is **0.32%** for Direct plan as on Sep 30, 2022.

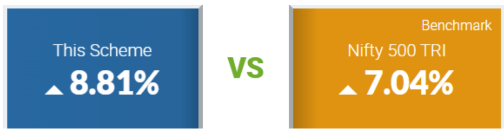
- **Exit Load:** Parag Parikh Conservative Hybrid Fund - Direct Plan shall attract an Exit Load, "**For units in excess of 10% of the investment,1% will be charged for redemption within 365 days**"

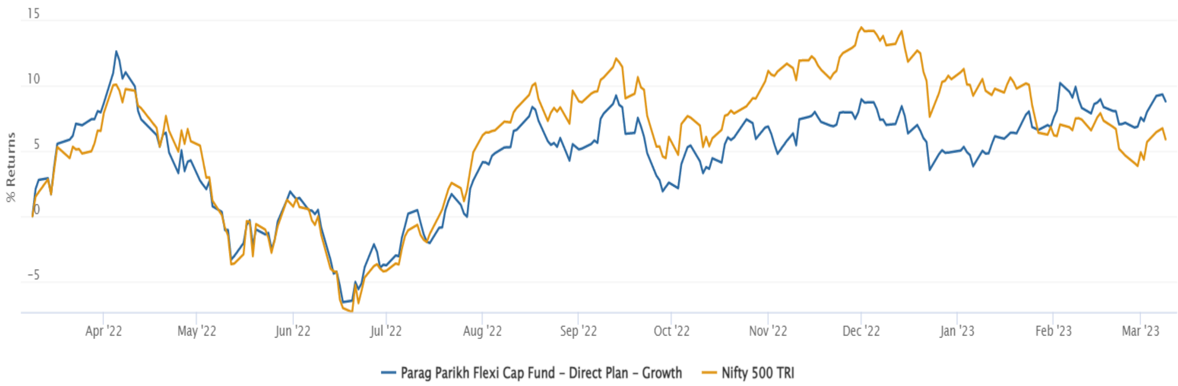
- **Minimum Investment:** Minimum investment required is Rs 5000 and minimum additional investment is Rs 1000. Minimum SIP investment is Rs 1000.

- **Launch Date:** The fund was launched on **May 26, 2021**.

- **Fund Category:Open-ended Conservative Hybridscheme**

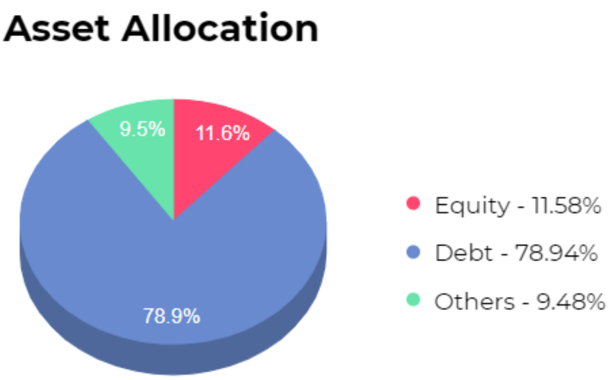
- **RETURNS COMPARISON AGAINST BENCHMARK:**

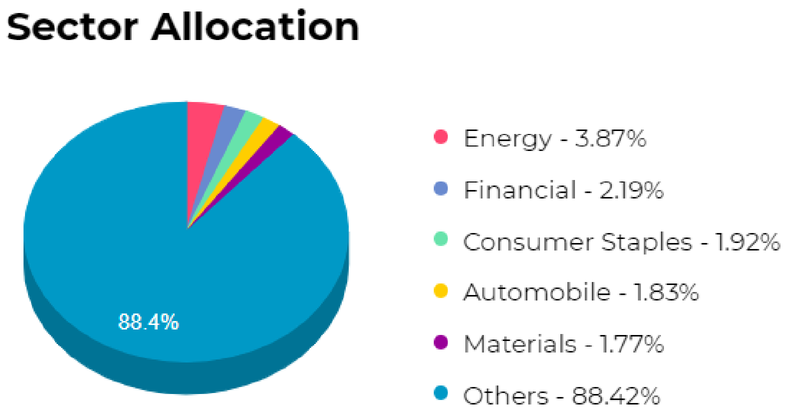




The fund has outperformed the benchmark (NIFTY 500TRI) for 1 year period which indicates that the fund is giving good returns & have employed their assets & debt proportion well, also the fund has **outperformed the category average of 7.33%.**

- **PORTFOLIO ALLOCATION:**





- **PORTFOLIO(%WISE):**

Stock Invested in	Sector	Value(Mn)	% of Total Holdings
Indian Railway Finance Corporation Ltd.	Financial institution	329.7	2.72%
Petronet LNG Ltd.	Lpg/cng/png/lng supplier	236.8	1.95%
Bajaj Auto Ltd.	2/3 wheelers	234.6	1.94%
Coal India Ltd.	Coal	226.8	1.87%
Power Grid Corporation of India Ltd.	Power - transmission	226.1	1.87%
ITC Limited	Diversified fmcg	220.7	1.82%
ICICI Bank Ltd. : Futures Near	Private sector bank	78.6	0.65%
Kotak Mahindra Bank Ltd. : Futures Near	Private sector bank	48.5	0.40%

Security Type	% Weight
GOI	59.58%
CD	9.72%
T-Bills	0.00%
CP	1.94%
NCD & Bonds	4.42%
PTC	0.00%

The fund has **12.17% investment in domestic equities of which 9.45% is in Large Cap stocks. The fund has 75.66% investment in Debt, of which 59.58% in Government securities, 16.08% is in Low-Risk securities.**

- Parag Parikh Conservative Hybrid Fund last **1-year returns are 6.62%.** Since launch, it has **delivered 7.13% average annual returns.**

- The fund's equity portion is primarily invested in Construction, Energy, Financial, Consumer Staples, Automobile sectors. It has taken less exposure in Construction, Energy sectors compared to other funds in the category.
- The debt portion of the fund has high credit quality indicating the quality of borrowers it has lent it to is great.
- The fund's top 5 holdings are in Tamil Nādu State, Uttar Pradesh State, Rajasthan State, West Bengal State, Kerala State.

- **TAX IMPLICATIONS**:

Hybrid funds which usually invest 65% or more in equity & equity related instruments will be taxed like Equity funds and those which invest less than 65% in equity & equity related instruments will be taxed like Debt funds. Generally, tax implications are based on the average asset allocation of the last 12 months where the fund has invested. However, since the market is dynamic and asset allocation towards equity may increase or decrease depending on the prevailing market & economic conditions. So, the tax treatment of the given fund will vary accordingly and will be determined by its asset allocation. Below are the tax implications from equity as well as debt side:

Equity side:

1. Gains are taxed at a rate of 15% (Short-term Capital Gain Tax - STCG) if units are redeemed within 1 year of investment.
2. For units redeemed after 1 year of investment, gains of upto Rs. 1 lakh accruing from those units in a financial year shall be exempted from tax.
3. Gains of more than Rs. 1 lakh will be taxed at a rate of 10% (Long-term Capital Gain Tax - LTCG).

Debt side:

1. If units are redeemed within 3 years of investment, the whole amount of gain will get added to the investor's income and will be taxed as per his/her applicable slab rate.
2. For units redeemed after 3 years of investment, gains will be taxed at a rate of 20% post indexation benefits. Indexation is a process of recalculating the purchase price after accounting for inflation into it. The benefit of indexation lies in lowering down one's capital gains which brings down the taxable income and thereby reduces taxes on it.

Taxes on Dividend income:
1. For Dividend Distribution Tax, the dividend income from this fund will get added to the income of an investor and taxed according to his/her respective tax slabs.
2. Also, for dividend income in excess of Rs 5,000 in a financial year; the fund house shall deduct a TDS of 10% on such income.

- **Views on the Fund:**

The Fund predominantly invests in debt instruments, the key advantage of this scheme is **credible & tax efficient alternative to certain fixed income instruments**
(Like bank FD's), offering income along with prospect of growth in NAV
When held for a **reasonably long period**.

CONCLUSION:

Parag Parikh basically runs 4 schemes i.e., Tax saver fund, conservative Hybrid fund,
Flexi cap fund & liquid funds as we have seen above in detail. Investor base of each scheme differs based on investment objectives & time horizon. Those investors who need to have tax benefits under Section 80(C) will greatly benefit from
Tax saver fund scheme as this scheme as this scheme has provided **annualised returns of 25.8%** (in 3 years) which is also a lock in period, also it has l**ow volatility i.e., Standard deviation (16,62vs category avg. of 20%).** Thus, it would be highly suggested to those investors who wants to save tax.Each fund basically aimed at **long term investing**,also each scheme performs good &have outperformed the benchmark index. But liquidity scheme which is basically for Short term is not providing as good returns**(1 year-5% returns which is even less than return on FD & various post office schemes), Thus, it would be recommended that other investment avenues should be explored in terms of Liquid fund.**
Parag Parekh Flexi fund would be recommended for investors who want to **diversify their portfolio against the systematic risk i.e., the portfolio contains securities across the other countries best assets as well,** thus investor gets exposure to quality assets also when investor like to have hedging effect.
Hybrid Funds offers investor th**e benefit of diversification a**s it involves in a portfolio
Consisting of multiple asset classes, the portfolio does contain an exposure to 13% equity also,& 75% in debt also 11% in other asset classes like REITS, TREPS & various banks FD's. Thus,**good for those investors who can take low to moderate risk& are happy with low returns. Since , Risk involved is also less so, minimum investment in equity & maximum investment in Risk free securities.**